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Annual Report

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Report Highlights:

Argentine beef exports in 2006 are forecast to increase to 720,000 tons, one of the highest levels in history. An improved sanitary status, the opening of new markets, and strong foreign demand for beef are creating more opportunities for the local industry which is very optimistic about its future. Production for 2006 is expected to remain stagnant.

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Annual Report
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SECTION I. SITUATION AND OUTLOOK

Argentine beef exports for 2006 are projected at 720,000 metric tons, the highest of the past 25 years. This is a result of improved profitability as FOB prices are forecast to remain attractive, a strong world demand, and the continuation of the opening of new markets. Local beef exporters believe that there are great opportunities for their business. Their main concern is the Brazilian aggressive expansion in world meat markets.

Although Argentine top beef exporters are close to full capacity, there is still room for further export expansion in the future. Investment in the sector, especially adding new capacity, has not been significant over the last decade or so. However, exporters can still tap some unused capacity, and shift some production from the local market to exports (on average, top export plants devote 60 percent to exports and 40 percent to the domestic market). Some of these large companies have been buying plants, most of them not operational, and preparing them for export. Most sources indicate that this process is expected to accelerate somewhat in the future.

As result of a good sanitary status with no Foot-and-Mouth Disease (FMD) or BSE, and very competitive FOB prices, Argentina is penetrating more markets every year. Argentine beef exports through June 2005 totaled 242,000 tons (in product weight), 70,000 tons more than the same period last year. Exports to the Russian Federation in this same period also increased 70,000 tons. During this same period, Chilean imports were re-initiated after being shut down during the first part of 2004 due to the FMD outbreak in northern Argentina (Tartagal) at the end of August 2003. With new markets and better prices, exports to low-price markets, such as Algeria, Bulgaria, South Africa, Albania, etc., have tended to decrease.

The Russian Federation, which will end 2005 as the leading market by far, is expected to continue to be a strong market in 2006. The Russian Federation's declining domestic supply, plus the fact that the European Union (EU) does not have export surpluses at competitive prices, has forced the Russians to look to South America for product. High world oil prices will generate income for the Russian Federation which will allow it to continue importing large volumes of beef. Argentina has about 80 plants eligible to export to this market. The main products which Argentina ships to the Russian Federation are trimmings and compensated cow carcasses. Average FOB prices, through June 2005, increased 15 percent from the same period in 2004.

The EU has also been a good market for Argentine beef. Apart from the Hilton Quota, Europeans are importing large volumes of out-of-quota beef, paying very high duties. Most products shipped are high value chilled cuts. Argentine beef exports in 2006 are projected to increase somewhat. Shipments in 2004 were 23 percent higher and a slight increase in volume is expected for 2005. Some local exporters point out that French buyers, which have never looked at this region as a beef supplier before, are currently in conversation with local packers to develop special beef products for their market.

Although the Chilean market did not grow as rapidly as expected after its re-opening a year ago, it is forecast to experience solid growth in 2006. Argentina used to be Chile's largest beef supplier, but after being out of the market due to FMD, Brazil captured much of the Chilean market, due to its competitively priced beef. Exporters indicate that Argentine product will recover part of the lost market share, but this process will be slow. In the interim, some Brazilian meat packers are having trouble gaining authorization to export to the Chilean market.

Israel has also become a very important market for Argentine beef. Exports in 2006 are forecast to remain high, as Argentina is one of their few suppliers capable of meeting their needs. Exports in 2004 were 33,000 tons. Main products exported to this market are boneless forequarter cuts.

The foregoing projections for those markets would eventually change if the U.S. and Canadian markets were to re-open. The Animal and Plant Health Inspection Service (APHIS) visited Argentina last June to conduct a pest risk assessment related to Argentine fresh beef. So far, U.S. veterinarians are analyzing their findings, prior to writing a proposed rule which will then be open to public comments. The local trade would like the market open as soon as possible. There are, however, some rumors that the Government of Argentina (GOA) is concerned about the opening of the U.S. and Canadian markets. Specifically the GOA is afraid that domestic cattle and beef prices could rise significantly, contribute to greater inflation, and make meat more expensive for Argentine consumers. If the U.S. market were to re-open, a good share of the beef that currently is being shipped to low-price markets would shift to the U.S., where prices are significantly higher.

Domestic production for 2006 is projected at 3 million tons; roughly the same as last year and somewhat lower than in 2004. Cattle slaughter should decrease marginally, but the average carcass weight is expected to be higher. The GOA recently published a regulation, to go into effect on November 1, which mandates that cattle weighing less than 300 kilos can no longer be slaughtered. This measure has the stated intention of increasing beef production. Specifically the GOA's objective is to add more weight to the 2 million calves slaughtered annually with an average weight of 240 kilos. The GOA hopes that this regulation will lead to greater supply, which will have downward pressure on domestic prices. Although almost everybody agrees that the slaughter of such young animals was against the sector, critics of this measure have stated that it will foster black-market activities, will actually result in less rather than greater supply, and will lead to a number of unintended consequences. The GOA has stated that this measure will be in effect for 180 days, but skeptics see it as a regulation which will probably be in effect for a longer period of time.

Argentines are the world's largest per capita beef consumers, and it will probably remain that way for a long time. However, if beef demand around the world continues to be as strong as it is currently, Argentines will have to restrict some of their consumption as high FOB prices will encourage higher exports. In 2006, roughly 24 percent of the total local beef output will be shipped to world markets. There is enough room to satisfy the domestic demand and still expand exports further in the future. Higher beef/cattle prices would initially encourage retention, and thus higher production down the road.

The feedlot business and the widespread use of corn (in various forms, from grain to silage) at the farm will help production to become more efficient. Roughly 25-30 percent of the slaughter comes from feedlots.

During 2002-2004 there were many slaughter plants re-opened, as the business was very profitable. Most of these were made with little investment. More recently, a few large companies bought other plants and reconditioned them. A small number of processors invested in cold chambers, new de-boning facilities, and cooking equipment. However, the most important trends in the sector are foreign investment in purchasing top export meat packers, and a slow and timid trend towards concentration. A British beef distributor, a U.S. multinational grain company and a top Brazilian beef exporter have purchased, partially or totally, local beef companies. The main reasons behind these investments are that Argentina produces high quality beef, primarily as a result of its excellent cattle herd with a strong prominence of British breeds, and has a good sanitary status, which is improving rapidly. It also has access to a wide variety of markets throughout the world.

Cattle prices in 2006 are expected to increase as a result of higher world demand, firm domestic consumption, and an unchanged beef supply. If the U.S. and Canadian markets reopen to Argentine fresh beef, most analysts forecast cattle prices to increase a minimum of 15-20 percent. However, the GOA is expected to react to such a price increase, as beef is a very sensitive product, and has a strong influence on the inflation rate. Cattlemen are afraid that export taxes could be increased as a way to compensate and cool down the export business. Indicative prices for cattle are 2.25 pesos per kilo for fed steers, 3 pesos per kilo for feeders, and 1,100 pesos for a young bred cow.

One of the most important measures the GOA strongly supports is the weak value of the peso. Every day the Central Bank buys dollars to keep the exchange rate at about \$2.9 (if it would float freely, some indicate it would drop to less than 2.5 pesos to a dollar). By doing this, the government believes it is supporting the country's economy and fighting unemployment. A strong dollar limits importation and encourages exports. Therefore, for 2006 most economists forecast the value of the dollar at about 3 pesos, just a 2 percent increase from 2005. Annual inflation is expected at 10 percent, similar to 2005.

The Argentine Beef Institute, which began to operate a few years ago, is producing useful market information and is actively supporting local companies in their promotion worldwide (e.g. Chile, U.K., E.U., Russia, etc.). Its annual budget, roughly US\$10 million, is financed through a check off program by which cattlemen pay the largest part and packers the balance.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina Animal Numbers, Cattle (1000 HEAD)					
	2004 USDA Official [	Revised Estimate[1]	2005 USDA Official [	Estimate[1]	2006 USDA Official [	Forecast Estimate[1]
Market Year Begin	01/2004		01/2005		01/2006	
Total Cattle Beg. Stks	50768	50768	49067	49567	49165	49366
Dairy Cows Beg. Stks	2000	2000	2100	2100	0	2200
Beef Cows Beg. Stocks	19200	19600	19000	19000	0	19000
Production (Calf Crop)	13600	14400	14400	14200	0	14000
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	64368	65168	63467	63767	49165	63366
Intra EC Exports	0	0	0	0	0	0
Total Exports	1	1	2	1	0	1
TOTAL Exports	1	1	2	1	0	1
Cow Slaughter	5100	5200	4400	4600	0	5300
Calf Slaughter	2300	2400	2100	1900	0	800
Other Slaughter	7200	7200	7100	7200	0	7400
Total Slaughter	14600	14800	13600	13700	0	13500
Loss	700	800	700	700	0	700
Ending Inventories	49067	49567	49165	49366	0	49165
TOTAL DISTRIBUTION	64368	65168	63467	63767	0	63366

PSD Table

Country Commodity	Argentina Meat, Beef and Veal					
	(1000 MT CWE)(1000					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
Market Year Begin	01/2004		01/2005		01/2006	
Slaughter (Reference)	14600	14800	13600	13700	0	13500
Beginning Stocks	0	0	0	0	0	0
Production	3080	3130	2950	2970	0	3000
Intra EC Imports	0	0	0	0	0	0
Total Imports	5	5	2	4	0	4
TOTAL Imports	5	5	2	4	0	4
TOTAL SUPPLY	3085	3135	2952	2974	0	3004
Intra EC Exports	0	0	0	0	0	0
Total Exports	617	627	700	680	0	720
TOTAL Exports	617	627	700	680	0	720
Human Dom. Consumpti	2468	2508	2252	2294	0	2284
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	2468	2508	2252	2294	0	2284
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	3085	3135	2952	2974	0	3004

SECTION III. SUPPLY & DEMAND, POLICY & MARKETING

Production

There is no accurate stock number in Argentina. Most sources' estimations range between 50-55 million head. During the latter part of the 1990s, the stock was estimated at about 49-50 million. Most people indicate that with the economic crisis of 2002 and 2003, the cattle herd expanded. In those years, crop production was very profitable as result of the devaluation and high world grain and oilseed prices. Farmers shifted much pastureland into crop production, but did not get rid of their cattle. On the contrary, much of the gains of cropping were invested in buying more cattle, one of the very few secure investments at the time. Basically cattle were "stacked up" in smaller lots. While most feeder cattle were fed high energy rations, breeding cows were sent to the poorer pastures, resulting in a negative impact on their production efficiency. For 2006, the slaughter plus losses is forecast to be somewhat higher than the calf crop.

The slaughter in 2006 is projected to be somewhat smaller than the previous year due to poorer herd efficiency. However, the average carcass weight is expected to increase as a result of the recent measure implemented by the GOA prohibiting the slaughter of cattle weighing less than 300 kilos. This measure will make a difference in the light heifers and steers, which were slaughtered at an average of 240 kilos, live. Therefore, beef output in 2006 could increase marginally.

The most important change in Argentina's cattle sector in the past couple of years was the widespread utilization of corn as feed. Before, alfalfa pastures were the most popular feed, but as cattle were pushed to more marginal areas and stacked in smaller lots, and many owners increased the number of cattle, cattlemen saw a great opportunity to feed inexpensive and highly productive corn. The feedlot industry expanded in these past years, but the real difference has been the use of corn at the farm level. Cattle feeders, copying dairymen, incorporated the use of corn silage and corn grain. This is especially true and advantageous in farms and ranches far from ports which avoid expensive freight costs and add significant value to their corn/cattle by turning it into beef.

There are several hundred feedlots in Argentina. The vast majority is small to medium, and just a few are large and "professional". The latter ones usually operate as hotels, charging for a daily yardage fee and the cost of feed. With the GOA's new measure on slaughter weight limits, we will probably see somewhat less cattle in feedlots in 2006, and, of course, larger and heavier animals.

Argentina is a large grain and oilseed exporter. Therefore, feed availability is not a problem. In fact, more and more producers are looking for ways of adding value to their crops. Grains and oilseeds exports are taxed 20-23.5 percent, making domestic prices cheaper than world prices. As said before, many producers are feeding their crops to cattle, while others are expanding their dairy and hog businesses. Quite recently a local investment group, led by agricultural producers, announced a large investment in a new poultry operation focusing primarily on the export market.

Most cow calf operations are localized in the northern provinces of Chaco, Santa Fe, Corrientes, and Entre Rios, and in the central provinces of Buenos Aires, La Pampa, and San Luis. Fed cattle operations are located primarily in southern Cordoba and Santa Fe and in the center west of Buenos Aires province. Feedlots are located primarily where grain is produced, but are scattered around the country. Two of the largest feedlots and most professional are situated in San Luis, a western province with dry weather, where there is good feed and feeder cattle availability.

There is a huge dispersion in the local cattle business as well as in the meat packer sector. There are roughly 250,000 cattlemen, almost 500 slaughter plants and approximately 300 feedlots in the country. Most people agree that there is no important movement towards concentration, as most players are in a good financial situation and prospects in the sector are very good. There are very few examples of vertical integration. The closest cases are the Angus and Hereford certified beef programs by which cattlemen sell under these programs to only one or two packers.

Cow-calf operations continue to face serious problems of production efficiency. While top breeders obtain calf crops higher than 85 percent, there are thousands of small and medium producers who are managing their herd in a very poor and old fashion way. These typically suffer reproductive diseases and parasite infestation, and cows are usually under fed. This situation represents a great opportunity for Argentina. If cattle prices and returns improve, there is a lot of room to expand production through improved low-cost management.

The availability of veterinary drugs and feed additives is widespread and plenty. There are various multinational and local laboratories producing domestically and in some cases importing products. Although hormone use was not vast (approximately 20 percent of the slaughter was treated) in Argentina, the GOA prohibited its use in late 2003, as its main market, the EU, did not allow imports of beef treated with hormones. Until then, ranches, which wanted to export under the Hilton Quota, had to be registered as non-user of these products. The system worked well. Many producers and the feedlot industry strongly questioned this ban. In fact, nowadays, since the government wants to boost beef production, the prohibition of this effective tool in increasing weight gain may come into question. Some sources believe that when the U.S. and Canadian markets open, which will probably become very important markets, the GOA might lift this prohibition.

There are no tight environmental or animal welfare regulations applied in Argentina, as most cattle production is done under a natural environment. However, some feedlots close to medium and large cities in wetter areas are finding a lot of resistance on part of the population and local mayors. It would not be surprising to see some of these feedlots closed in the near future. Regarding animal welfare, there are some private actions, especially on behalf of packers, by which they are teaching producers techniques to lower the incidence of bruises, vaccine spots, hide scars, etc.

The GOA continues to control foot and mouth disease through vaccination. There is consensus among the southern cone countries that vaccination will have to continue for several more years. No country wants to go through the bad experience of 2-3 years ago when the disease spread rapidly through the borders. Argentina is recognized by the OIE as being BSE free. The animal health service makes random controls, apart from prohibiting the use of animal by-products for feed.

After the devaluation in 2002, land prices initially dropped due to uncertainty, but as soon as people realized that the agricultural sector was one of the most favored sectors with improved returns, land prices rebounded. Moreover, the lack of investment alternatives, made farmers buy more land and cattle. The rent of land for both cropping and cattle is currently very high due to their good returns, and is expected to continue in 2006.

The dairy, hog and poultry sectors are going through an expansion cycle. In all cases the recovery of the domestic demand has encouraged strong investment. In addition, the poultry and dairy sectors are also benefiting from large exports. In terms of production wise, there is practically no competition among these sectors, especially because there is abundant feed available for all.

Consumption

Domestic consumption for 2006 is forecast to remain quite stable at 2.3 million tons. A slightly larger beef output will be offset by larger exports. In Argentina all beef produced or supplied to the market is finally consumed. The variable that changes, based on the strength of the demand, is price.

The Argentine Beef Promotion Institute published a few months ago a study on the local beef market. Following are some of the most interesting findings: per capita beef consumption at home is 62 kilos and 6 kilos is ate in other places; the frequency of beef consumption is 17 days a month; almost 25 meals a month contain beef; practically 50 percent of homes eat beef between 5-7 days a week; short ribs, ground beef and knuckle are the cuts most consumed at homes; breaded veal, steaks, barbecue and stews are the most popular beef dishes; salads and fresh vegetables are the most popular side dishes to accompany beef; about 70 percent of buyers source their beef in butchereries, while the balance is bought mostly in super and hypermarkets (higher income consumers prefer to buy in large retailers); about 50 percent of the people buy beef between 2-4 times a week; 80 percent of the time housewives are responsible for the buying; half of the beef consumed is from heifers and young-light steers, while the balance is mostly steers; a vast majority of the homes buy their beef cut at the moment, while sales of beef in supermarket trays is small and vacuum-packed beef is practically negligible; almost 60 percent of the people do not freeze their beef.

Beef prices in 2006 are forecast to increase as result of higher cattle prices primarily due to a strong export demand. Also, as the economy continues to grow and more people are employed, new consumers will be added. However, the government will probably intervene in some way or another to control such increases, as fighting inflation is one of its main goals. In fact, quite recently the GOA, under political pressure due to elections next October, signed an agreement with cattle marketers, meat packers and retailers to freeze beef prices for 90 days.

The following table shows some retail prices of fresh meats and fish taken from a large retailer in Buenos Aires city (all prices are in pesos and include VAT):

Product	Price (kg)	Product	Price (kg)
Short ribs	\$6.5	Pork ribs	\$10
Loin	\$14	Pork chops	\$8
Round eye	\$12	Chicken	\$4
Ground beef	\$6.5	Hake	\$8.9

Argentine beef quality changed in the past years as result of the generalized use of grain, not only at feedlots, but also in most ranches. After much discussion about whether Argentina should defend and continue to produce grass-fed beef only, economics have prevailed and most cattle are fed corn in their last 100 kilos. Although the flavor of beef changed somewhat (most consumers do not notice the difference), the quality and condition of fed cattle, and thus their beef, has improved.

Poultry consumption continues to increase and is expected to reach record levels in 2006. Broiler prices are significantly cheaper than comparable beef cuts and therefore, more and more people shift to higher chicken consumption. The local poultry sector is enjoying great growth as profitability is very good due to very competitive costs and good demand from the local and export markets. This sector has also signed a price ceiling agreement for broilers with the GOA. Although pork production in Argentina is growing as result of good returns,

consumption continues to be low. Added pork output is substituting imports which come primarily from Brazil. Pork per capita consumption is about 7-8 kilos, of which 90 percent is consumed as cold cuts and other processed products. Argentina exports large volumes of fish, but domestic consumption is quite limited. Prices are generally similar to those of beef, but fish usually is perceived as more complicated to prepare and less abundant.

Stocks

There are practically no beef stocks, as meat packers have the capacity to store the production of only 2-3 days. The government does not stock or buy any beef.

Trade

Please refer to the first part of SECTION I. SITUATION AND OUTLOOK.

The GOA implemented in 2002 two important measures that affect trade, but have opposite effects. On one hand the GOA maintains a weak local currency to make local exports competitive and limit imports, and on the other, it taxes exports to collect much needed revenue. Most local beef exports have been enjoying rebates of about 5 percent over the past several years, but since 2002 they were taxed a similar amount. However, one should not discard the increase of these in the future, especially if the U.S. and Canadian market open, which most believe will trigger significant price increases. A few months ago, the GOA increased export taxes on dairy products from 5 percent to 15 percent, as a way to stop increases in farmgate milk prices. These types of measures are of doubtful effectiveness and are strongly questioned by the local agricultural sector.

Table of Import Duties, Export Rebates and Export Taxes (in %, September 2005):

HTS	Description	Import Duty	Export Rebate	Export Tax
020120	Fresh bone-in beef	10.0	1.35	5.0
020130	Fresh boneless beef (cont. <5 kg)	12.0	5.0	5.0
020220	Frozen bone-in beef	10.0	1.35	5.0
020230	Frozen boneless beef (cont. <5 kg)	12.0	5.0	5.0
160250	Processed beef	16.0	5.0	5.0

Marketing

Many sources indicate that as long as Argentina does not implement a modern beef grading system, the sector will not improve and investment will remain low. At present most beef is sold in carcasses, which are taken to each butcher (and in many cases supermarkets as well) where they are de-boned. There is practically no premium for carcasses or cuts based on quality. Domestic sales of boxed beef are negligible.

There are basically two channels for cattle/beef marketing. The first, sell directly to a meat packer or beef middlemen and send the cattle to the plant for slaughter. The owner of the beef (they usually pay the slaughter fee with hides and byproducts) then distributes the carcasses among its clients which can be butchers or retailers. A second alternative is to

send cattle to the concentrated auction market in Buenos Aires, where every day more than 15,000 fed cattle are sold. Middlemen or retailers buy cattle there and send it to slaughter to a contracted plant. They pay for the slaughter service and then distribute the carcasses among their clients.

Beef products from the U.S. have little marketing chances due to much higher cattle/beef prices than local product and the weak peso, which makes imported products quite expensive. There is also a sanitary ban as the few cases of BSE registered in the U.S. in the past months have made the Argentine animal sanitary officials prohibit imports. Several years ago, Argentina imported large volumes of beef sweetbreads from the U.S. These are very popular in Argentina, mainly consumed at cookouts. Their price is quite high, but when U.S. product was available, it made values come down significantly. USDA and local sanitary officials are working to solve this issue.